

Press Release

Raffles Square Development Private Limited

July 29, 2019



Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs.64.00 Cr. (Enhanced from Rs.50.00 crore)
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to Rs.44.00 crore bank facilities and assigned long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs.20.00 crore bank facilities of Raffles Square Development Private Limited (RSDL). The outlook is '**Stable**'.

Further, Acuité has also withdrawn long term rating of ACUITE BBB on the Rs.0.50 crore bank facilities.

The rating continues to reflect healthy occupancy rate (OR), established brand presence in hotel industry and diversified target travelers. The rating is partially offset by change in the capital structure i.e. quasi equity replaced by debt fund.

Pune based, RSDL was incorporated in 2005 by Mr. Anirudha Seolekar, Mr. Ashok Kothari and Mr. Promod Dhadiwal. The company owns and operates two five star hotels under the 'O-Hotel' Brand at Pune (111 keys) and Goa (75 keys) location. Both the hotels have banquet halls, conference rooms, restaurants and bars facilities.

Analytical Approach

Acuité has considered standalone business and financial risk profile of RSDL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and brand name**

The company was incorporated in 2005, with the Pune hotel commencing from May, 2008 and the Goa hotel from October, 2009. The Promoters, Mr. Anirudha Seolekar, Mr. Ashok Kothari and Mr. Promod Dhadiwal have over a decade of experience in the hospitality industry apart from real estate industry. The promoters backed by their experience have been able to create a reputation for "O" brand name.

Acuité believes ...

- **Favorable location along with healthy OR and ARR**

The Pune hotel is located at corporate hub, Koregaon Park and designed for business travelers whereas the Goa's hotel is located at Candolim beach. The Pune hotel had the OR of ~75 percent with average room rate (ARR) of Rs.4620.00 approximately whereas, the Goa hotel had OR of more than 80 percent with ARR of Rs.5000.00 approximately during FY2019. Further, the revenue profile is diversified as reflected from the F&B segment accounting for ~30% and room revenues accounting for ~60% of total revenue over the last three years under study.

Acuité believes that the OR and ARR to remain healthy on account of established brand position, increasing tie-ups with corporate clients and favorable hotel location. Further, the hotel offers convenient booking through online aggregators as well.

- **Moderate financial risk profile**

RSDL has moderate financial risk profile marked by moderate gearing of 1.73 times as on March 31, 2019 (Provisional) as compared to 0.85 times as on March 31, 2018. The net worth reduced to 31.07

crore as on March 31, 2019 (Provisional) from 45.10 crore as on March 31, 2018 on account of reduction in quasi equity proportion. The Interest bearing quasi equity, subordinate to bank debt is reduced to Rs.18.45 crore since FY2019 from Rs.37.55 crore for FY2018. The total debt of Rs.53.76 crore as on March 31, 2019 (Provisional) consist of long term debt from bank to the tune of Rs.23.39 crore, unsecured loan from promoters and related parties to the tune of Rs.13.95 crore and short term borrowing of Rs.16.41 crore. The change in capital structure led to rise in Total Outside Liabilities/Tangible Net Worth (TOL/TNW to 1.65 times as on 31 March, 2019 (Provisional) as against 0.82 times as on 31 March, 2018. Interest Coverage Ratio (ICR) stood moderate at 2.19 times in FY2019 (Provisional) as compared to 2.09 times in FY2018.

The change in capital structure during FY2019 is due to withdrawal of inter corporate loans extended by group companies (previously treated as quasi equity). This is replaced by equivalent amount of corporate loan from external sources.

Weaknesses

- **Intense competition and cyclical in hospitality industry**

RSDL faces competition from other upcoming and presently operating hotels in and around Pune and Goa. Further, in the hotel industry, the company is susceptible to risks arising from the cyclical in therein. The hotel revenues are also vulnerable to general economic slowdown and other factors such as terrorist attacks, disease outbreaks, geopolitical crisis, natural calamities etc.

Liquidity Position

RSDPL has adequate liquidity position marked positive cash flow from operations. The steady cash flow generation from its hotel properties is expected to support the debt repayments. The company has limited capex plans in the medium term. Bank limit utilization stood moderate healthy at ~52 percent over the last six months ended June 2019. The expected cash accruals ranges from Rs.6.13-7.93 crore which is adequate to service debt obligation ranging Rs.5.91-3.20 crore over the medium term. Further, the company's proven ability to raise debt at attractive term support's the financial flexibility.

Outlook: Stable

Acuité believes RSDPL to continue to benefit from its geographically favorable location, besides its experienced promoters. The outlook may be revised to Positive if higher-than-expected improvement in ARR's and occupancies to strengthens the financial risk profile. The outlook may be revised to Negative if occupancies and ARR's decline due to competitive pressures, or if any debt funded capital expenditure weakens financial risk profile or liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	46.13	46.35	41.28
EBITDA	Rs. Cr.	15.13	16.49	14.50
PAT	Rs. Cr.	2.57	1.47	(0.27)
EBITDA Margin	(%)	32.80	35.58	35.14
PAT Margin	(%)	5.58	3.16	(0.65)
ROCE	(%)	17.00	16.68	10.35
Total Debt/Tangible Net Worth	Times	1.73	0.85	1.09
PBDIT/Interest	Times	2.19	2.09	1.68
Total Debt/PBDIT	Times	3.34	2.25	3.18
Gross Current Assets (Days)	Days	92	78	85

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-8.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios[AFM1] And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-May-2018	Overdraft	Long Term	21.00	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	7.72	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	7.52	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	0.50	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	10.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Assigned)
	Proposed bank Facilities	Long Term	2.26	ACUITE BBB/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	6.19 (Revised from Rs.7.72 Cr)	ACUITE BBB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	5.87 (Revised from Rs.7.52 Cr)	ACUITE BBB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BBB (Withdrawn)
Term Loans	Not Applicable	Not Applicable	Not Applicable	9.88 (Revised from Rs.10.00 Cr)	ACUITE BBB/Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3+ (Reaffirmed)
Proposed bank Facilities	Not Applicable	Not Applicable	Not Applicable	0.06 (Revised from Rs.2.26 Cr)	ACUITE BBB/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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